CONSUMER CONNECTION'S
Special Supplement
A to Z Guide to Credit Cards
July 2007

Americans will charge more than $1.7 trillion in purchases in 2007 using just four of the major credit cards, despite a national credit card debt that's already more than $800 billion. The average American household already owes more than $9,000 in credit card debt. Industry experts estimate that 45 percent of credit card holders will continue to make minimum payments (two to four percent of the outstanding balance). This means that, even if these cardholders do not accumulate additional fees and charges, it will take them approximately 13 to 30 years to pay off their balances.

Whether you're shopping for a credit card or coping with credit card debt, it pays to know as much as you can about how credit cards work. *Consumer Connection's A to Z Guide to Credit Cards* explains how credit cards work, how credit card offers are made, how to deal with debt, how to resolve credit card disputes, and other credit card basics.

A

Annual Credit Report: Federal law requires each of the three nationwide **credit bureaus** – Equifax, TransUnion, and Experían – to provide you one free copy of your **credit report** every 12 months.

You should check your credit report from each bureau at least once each year. Make sure that your identifying information is correct. Look for incorrect account information, obsolete information, and indications of identity theft. Because different creditors report to different bureaus, check to see that the information in each bureau's report is as consistent as possible with the other bureaus' reports.

AnnualCreditReport.com is the only legitimate online source for your free annual credit report. Beware of imposter sites that will give you a "free" credit report only if you sign up for a service (such as credit monitoring) for a fee.

You also can order your free annual credit report by calling (877) 322-8228 toll-free, or by sending a request to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. For mail requests, download the Annual Report Request Form from AnnualCreditReport.com. You can monitor your credit for free all year by requesting one report per bureau every four months.

Annual Fee: An annual fee is a yearly charge added to your credit card account simply for having the card, whether you use it or not. Not all cards have an annual fee, but many **rewards cards** do. The annual fee may be greater than the value of the rewards, especially if you're like the 25 percent of rewards card users who never redeem their points.

Annual Percentage Rate (APR): The Annual Percentage Rate tells you the interest rate you will pay if you carry a balance on your credit card, take out a cash advance, or transfer a balance from another credit card. The APR states the interest rate as a yearly rate (for example, 18 percent APR). The APR must be disclosed in all types of credit arrangements – credit cards, mortgages, car loans and so on. When you're shopping for a credit card, you should use the APR to compare the cost of credit among different credit card issuers. (See **Finance Charge, Outstanding Balance,** and **Solicitation**.)

There are many kinds of APRs. A *variable interest rate* can change depending on any number of factors, such as when the prime rate or Treasury Bill rate changes. A *fixed interest rate* doesn't change, or at least doesn't change very often. (A credit card issuer must tell you before it increases a fixed rate.) One credit card can even have several APRs – for example, one for purchases, one for cash advances, and another for balance transfers – or may apply different interest rates to different levels of outstanding balance. A penalty APR may apply if you make a payment late. (See also **Fees** and **Universal Default**.)

B

Balance Transfer: A credit card issuer may encourage you to transfer balances from other creditors to its credit card. Most card issuers do this by offering a low introductory **APR** on transferred balances for a stated period and by waiving the **balance transfer fee**. The APR increases to a normal APR when the period expires. (See also **Cash Advance** and **Convenience Check.**)

Balance Transfer Fee: A fee that a credit card issuer imposes whenever you transfer a balance from another creditor.

Bankruptcy: Consumer bankruptcies usually involve liquidation of most of the consumer's assets (called a Chapter 7 bankruptcy) or a reorganization of the consumer's financial affairs (called a Chapter 13 bankruptcy). In either case, the consumer is discharged from responsibility for paying most debts when the bankruptcy is successfully concluded.

Changes to the Bankruptcy Code in 2005 prevent individuals with consumer debt from obtaining a Chapter 7 discharge if they are able to pay some of the debt. In simplest terms, a Chapter 7 case filed by an individual with mostly consumer debt now can be dismissed or converted to a Chapter 13 case if the individual's income is more than a specified amount calculated under the new bankruptcy law. In a Chapter 13 case, the individual must use his or her disposable income (as defined by the Bankruptcy Code) to make payments on those debts for up to five years. In either case, the consumer must get credit counseling from a government-approved organization six months or less before filing bankruptcy.

Bankruptcies usually are reported on a consumer's credit report for ten years after discharge. Even so, consumers often receive offers of credit after a Chapter 7 discharge because they cannot file bankruptcy again for six years.

Billing Error: Suppose that your credit card statement shows a charge you didn't make or authorize. Or, suppose that you charged a purchase, but the item delivered is not what you ordered, or it arrives a month late.

You have the right to dispute these kinds of transactions with the credit card issuer, and to withhold payment of the amount in dispute, but you must follow the rules closely. In particular, you must send the credit card issuer a written notice of dispute within 60 days after the date of the first statement showing the charge. You must send the notice to the address specified by the issuer for this purpose.

Be sure to read the Department of Consumer Affairs' Legal Guide CR 8, *How to Correct a Credit Card Billing Error*, at www.dca.ca.gov/publications/legal_guides/cr_8.pdf. See also Legal Guide CR 7, *How to Withhold Payment on a Credit Card,* at www.dca.ca.gov/publications/legal_guides/cr_7.pdf, and the California Attorney General's information on credit card chargeback rights at http://ag.ca.gov/consumers/general/credit_card_chargeback_rights.php.

C

Cancellation of Recurring Charges: Imagine that you join a health club and authorize it to charge the monthly dues to your credit card. Three months later, the club still doesn't have equipment promised in the membership agreement. You cancel your membership, but the club keeps charging your credit card for the monthly dues. What can you do?

You should contact both the health club and credit card issuer right away. Explain to both that the health club has breached its agreement with you and that you have cancelled the contract. Tell the health club to stop charging your account, and tell the card issuer to stop honoring the charges and to reverse the improper ones. Follow up any phone calls or e-mails with letters. If the charges continue, send a letter to the card issuer disputing each charge. Send the letter within 60 days of the date of the statement that shows the charge. (See also **Billing Error**.)

If you think the health club or card issuer is being dishonest, report it to the California Attorney General's Office (http://ag.ca.gov/consumers). Reporting your situation to the local Better Business Bureau (www.bbb.org) may help other consumers avoid a similar problem with that health club.

Cash Advance: Many credit cards offer the feature of being able to use the card to obtain cash (a "cash advance") from an ATM or a bank. This can be an expensive way to borrow money. The card issuer may charge a transaction fee of three percent or more of the amount advanced, and usually charges a higher **APR** than for purchases. (See also **Balance Transfer** and **Convenience Check**.)

Cash Advance Fee: A cash advance fee is the fee that the credit card issuer will impose each time you use the card for a cash advance. (See **Fees**.)

Collector/Debt Collector/Debt Collection Agency: If you owe a creditor money, it may try to collect the debt by sending you a demand for payment or by assigning the debt to a debt collector. Creditors and debt collectors must observe laws that establish fair standards of conduct. For example, debt collectors cannot use profane, obscene or abusive language, harass the debtor, or make unlawful threats.

These laws also give consumer debtors specific legal rights, such as the rights to cut off contacts by the debt collector, to dispute the debt, and to specify when and where the collector may and may not contact them.

For more information, see the Department of Consumer Affairs' Legal Guides DC 1, *What To Do If You Receive A Demand For Payment From a Creditor or Debt Collection Agency,* at www.dca.ca.gov/publications/legal_guides/dc_1.pdf., and DC 2, *Summary of the Fair Debt Collection Practices Statutes,* at www.dca.ca.gov/publications/legal_guides/dc_2.pdf.

Complaints Against Credit Card Issuers: Credit card issuers include banks, finance companies, credit unions, savings and loans, and retailers. If you find a charge you do not understand on your monthly statement, contact the credit card issuer right away. (See **Billing Error**.) If the charge is the result of a new fee, term, condition, or other circumstance you were unaware of, you can ask the card issuer to waive it. The issuer may waive the fee as a courtesy, but has no obligation to do so, provided it gave you proper notice of the fee.

If your credit card issuer does not resolve a billing error to your satisfaction, or does not give you proper notice of a new fee, term or condition, you may file a complaint with a State or Federal regulatory agency, depending on the issuer of the credit card. The California Department of Financial Institutions has a database of financial institutions and credit card issuers, www.dfi.ca.gov/consumer, that will help you find the correct regulatory body.

The California Attorney General's Office also can provide consumer assistance on a wide range of disputes and possible fraud. Go to http://ag.ca.gov/consumers/.

<u>Federal authorities include</u>:

For credit cards issued by State banks that are members of the Federal Reserve System:

Federal Reserve Board
Division of Consumer and Community Affairs
Mail Stop 801
Washington, DC 20551
(202) 452-3693 www.federalreserve.gov/consumers.htm

Credit cards issued by banks with "national' in the name or "N.A.":

Comptroller of the Currency
Customer Assistance Group
1301 McKinney Street, Suite 3450
Houston, TX 77010
(800) 613-6743 www.occ.treas.gov

Credit cards issued by State banks that are not members of the Federal Reserve System:

Federal Deposit Insurance Corporation (FDIC)
Consumer Response Center
2345 Grand Boulevard, Suite 100
Kansas City, MO 64108
(877) 275-3342 (toll free) www.fdic.gov
e-mail address: Consumeralerts@fdic.gov

Credit cards issued by Federal savings and loan associations and Federal savings banks:

Office of Thrift Supervision
West Region Consumer Affairs
P.O. Box 7165
San Francisco, CA 94120
(650) 746-7000 www.ots.treas.gov

Credit cards associated with Federal credit unions:

National Credit Union Administration
Region V Tempe
1230 W. Washington Street, Suite 301
Tempe, AZ 85281
(602) 302-6000 www.ncua.gov

Email Address: region5@ncua.gov

Credit cards issued by finance companies or stores, and matters related to automobile dealers, mortgage companies, and credit bureaus:

Federal Trade Commission
Consumer Response Center
600 Pennsylvania Ave. NW
Washington, DC 20580
(877) 382-4357 (toll free) www.ftc.gov

Convenience Check(s): Convenience checks are special checks that are tied to your credit card account. They typically arrive in sets of three along with your credit card statement. Convenience checks can be used to make purchases or transfer balances, up to your credit limit, but they impose hefty fees (up to five percent of the check amount) and high interest rates (sometimes 20 percent or more). Read and understand the fine print before you use a convenience check. (See **Balance Transfer** and **Cash Advance**.)

Credit Bureau or **Credit Reporting Agency:** There are three nationwide credit bureaus – Equifax (www.equifax.com), TransUnion (www.transunion.com), and Experían (www.experian.com). Credit bureaus collect, process, and sell information about consumers' credit histories. Credit bureaus sell **credit reports** and **credit scores** to all kinds of creditors, including credit card issuers, banks, credit unions, mortgage lenders, auto finance lenders, insurance companies, and landlords. Credit bureaus get their information from creditors, such as those just listed. They also collect public record information, such as lawsuits, judgments, tax liens, and bankruptcy filings.

The credit bureaus also sell lists of consumers in their databases who meet criteria specified by creditors or insurers. Creditors and insurers use these lists to send out "preapproved" offers of credit or insurance. You can opt out of receiving these offers by calling (888) OPTOUT or (888) 567-8688 toll-free or by going to www.optoutprescreen.com. (See **Prescreening**.)

For more information on credit bureaus, go to www.ftc.gov/bcp/conline/edcams/credit/coninfo_reports.htm. This should lead you to the "Credit Reports" page.

Credit Counselor/Debt Negotiator/Credit Repair: If you are in debt over your head, you may benefit from competent credit counseling. Finding a good credit counselor takes homework. Ask family, friends, and your local Better Business Bureau (www.bbb.org) for referrals. Check the National Foundation for Credit Counseling's (NFCC's) Web site at www.nfcc.org to locate a Consumer Credit Counseling Service near you. Read the suggestions in the Department of Consumer Affairs' Legal Guide DC 1, *What to do if You Receive a Demand for*

Payment from a Creditor or Debt Collection Agency, at www.dca.ca.gov/publications/legal_guides/dc_1.pdf.

The California Department of Corporations (DOC) regulates credit counseling organizations that pay debts on your behalf, such as through a debt management plan or debt settlement plan. (See **Debt Management Plan**.) These businesses often are called bill payers or proraters. See the DOC Web site at www.corp.ca.gov for more information.

Credit repair agencies promise, for a fee, to clean up your **credit report** so that you can get credit, a loan, or a mortgage. The Federal Trade Commission offers this simple advice: Don't believe their promises. According to the FTC's Web site, "After you pay them hundreds or thousands of dollars, these companies do nothing to improve your credit report; most simply vanish with your money." For more information, go to www.ftc.gov/bcp/conline/edcams/credit/coninfo_debt.htm. This should lead you to the "In Debt" page.

Also, Consumer Action, a national nonprofit education and advocacy organization, has a wealth of archived publications on debt and credit repair on its Web site, www.consumer-action.org.

Credit Limit: Your credit limit is the maximum amount that the credit card issuer will allow you to borrow. Going over the limit will result in an **over limit fee.**

Credit Limit Increase Fee: If you ask your credit card issuer to increase your **credit limit**, the issuer may charge you a fee to do so. Banks that issue credit cards usually do not charge fees to increase credit limits, but issuers of **subprime credit cards** often do. See also **Fees**.

Credit Report: Your consumer credit report contains your name and former names, current and former addresses, Social Security number, employment history, lawsuits where you were a named party, judgments against you, legal claims against your property (liens), and any bankruptcies. It also contains your credit history in the form of a list of your creditors, the type of account (for example, credit card, auto loan, or mortgage), your current balance, your payment history for the past two or three years, and other information. It also reports whether any of your accounts has been assigned to a collection agency and whether you are disputing any charges.

Negative information about you usually cannot be reported for more than seven years, but bankruptcies can be reported for ten years.

Credit card issuers and other creditors rely on your credit report, including your **credit score**, to decide whether you are a good credit risk and what terms to offer you. A potential employer can use your credit report in determining whether to hire you, and a potential landlord can use it in determining whether to rent to you.

Your credit reports from each of the three major **credit bureaus** probably do not contain the same information. It's up to you to review and monitor your credit reports and inform the bureaus about any incomplete or inaccurate information. (See **Annual Credit Report**.)

You are entitled to a free credit report if you were denied credit because of information in your credit report, are unemployed and plan to look for work within 60 days, are on welfare, or suspect that you may be (or are) a victim of identity theft. It's especially important to check your credit report if you've been denied credit or are concerned that you are the victim of identity theft. Look for and dispute incomplete or inaccurate information. If you don't qualify for a free report, you'll have to pay $8 for each report.

For more information on credit reports, go to www.ftc.gov/bcp/conline/edcams/credit/coninfo_reports.htm. This should lead you to the "Credit Reports" page.

Credit Score: Your credit score is a numerical measurement used by creditors to decide whether to give you credit and on what terms. Your credit score is based on your credit history compared to the histories of other consumers. The Federal Trade Commission's Web site explains credit scoring like this:

> Information about you and your credit experiences, such as your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts, is collected from your credit application and your credit report. Using a statistical program, creditors compare this information to the credit performance of consumers with similar profiles. A credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points — a credit score — helps predict how creditworthy you are; that is, how likely it is that you will repay a loan and make the payments when they are due.

The FICO credit score is the most common, but there are other credit scoring systems. FICO scores range from 300 to 850, with higher scores indicating lower credit risk. According to FICO, about 45 percent of the population have scores in the 700 to 799 range. Generally, when scores fall below the mid-600s, consumers will only qualify for **subprime** rates.

FICO scores are based on the following categories/percentages:

Payment History	35%
Amounts Owed	30%

Length of Credit History	15%
New Credit	10%
Types of Credit Used	10%

You can purchase your credit score from the nationwide **credit bureaus** for $8 to $15. You don't have to buy the extra products (such as credit monitoring) that they may try to sell you.

For more information on credit scoring, go to www.ftc.gov/bcp/conline/edcams/credit/coninfo_reports.htm. This should lead you to the "Credit Reports" page. Also check "Understanding Your FICO Score" at www.myfico.com.

D

Deadbeat: In traditional slang, a deadbeat is someone who does not pay his or her bills. However, among credit card issuers, a deadbeat is a customer who does not generate interest or fees because he or she pays the account on time and in full every month.

Credit card issuers still make money with deadbeat accounts because they charge merchants each time a credit card is used to make a purchase. This interchange fee or **merchant fee** generated more than $30 billion in revenue for credit card issuers in 2005, according to Bankrate.com.

Debt Management Plan (DMP)/Debt Settlement Plan (DSP): If you have severe debt, a debt management plan (DMP) may be an appropriate option. In a DMP, you deposit money each month with a credit counseling agency. The agency uses your deposit to pay your creditors according to a schedule the agency has developed with you and your creditors. It can take 36 to 60 months to repay debts through a DMP.

In a debt settlement plan (DSP), the credit counseling organization negotiates a one-time settlement amount with your creditors. You deposit the money with the credit counseling organization, and it sends the money to the creditor in full settlement of the debt.

In California, DMPs and DSPs may be administered to California residents by proraters licensed by the Department of Corporations (DOC). DMPs and DSPs also may be administered by nonprofit credit counseling organizations that are exempt from licensure and that have agreed to limit the fees they charge to debtors. See the DOC's Web site at www.corp.ca.gov for more information. See also **Credit Counselor/Debt Negotiator/Credit Repair.**

Debt Negotiator: See **Credit Counselor/Debt Negotiator/Credit Repair.**

Default: "Default" means that you have failed to do something that your credit card agreement requires you to do. The most common default is making a payment late. When you make a payment late, the card issuer can raise your interest rate and charge you a **late payment fee** (which can be $29 to $39 or more).

Read your credit card agreement so that you'll know your card issuer's rules for avoiding default. For example, one card issuer requires that payments be received before noon at a specific address, be made by a single check in U.S. dollars, and be accompanied by the payment coupon. (See also **Universal Default**.)

Defective Product: Suppose that you use your bank credit card to buy a high-tech cappuccino maker for your home, but it stops working after a month. Suppose that you bought the cappuccino maker at your neighborhood coffee emporium. You make a good faith effort to get the seller to fix or replace the cappuccino maker, but the seller refuses. At this point, you have the right to withhold payment from the credit card issuer. You can withhold the amount that you still owe on the cappuccino maker, plus any finance charge imposed on that amount. To exercise this right, you must send the credit card issuer a letter explaining that you're withholding payment and why.

Be sure to read the Department of Consumer Affairs' Legal Guides CR 7, *How to Withhold Payment on a Credit Card,* at www.dca.ca.gov/publications/legal_guides/cr_7.pdf. See also Legal Guide CR 8,*How to Correct a Credit Card Billing Error,* at www.dca.ca.gov/publications/legal_guides/cr_8.pdf., and the California Attorney General's Web site, http://ag.ca.gov/consumers/.

E

Equifax, Experían: See **Credit Bureau.**

F

Federal Reserve Board (FRB): See **Complaints Against Credit Card Issuers** and **Shopping for Credit Cards**.

Fees: Credit card agreements today typically provide for a number of fees and charges, such as **annual fees**, **minimum finance charges**, **cash advance fees**, **late payment fees**, **over limit fees**, and fees for paying by telephone. By one study, annual fees, cash advance fees, and penalty fees alone generated more than $16 billion for credit card issuers in 2005. (Interest revenue was more than $71 billion that year.)

It’s important that you understand the fees that you may be required to pay and the conditions that may trigger them. Before you sign up for a credit card, look carefully at the disclosure box in the application or **solicitation**. If you’ve already accepted a credit card, check your credit card agreement for amounts and triggers of fees so that you’ll know how to avoid them.

A Harvard Law Professor, testifying at a January Senate hearing, described credit card issuers as using “tricks and traps” to maximize their income:

> “[T]he customers who generate the real profits for credit card companies are those who ... miss payments, and who end up paying default rates of interest and penalty fees. To maximize profits from this group, the credit card issuers ... load their initial card agreements with tricks and traps so that they can maximize income from interest rates and fees ....”
>
> “The tricks and traps list is lengthy, but it includes universal default [see **Universal Default**], default rates of interest, late fees, over-limit fees, fees for payment by telephone, repeated changes in the dates bills are due, changes in locations to which bills should be mailed, making it hard to find the total amount due on the bill, moving bill-reception centers to lengthen the time it takes a bill to arrive by mail, misleading customers about grace periods [see **Grace Period**], and double-cycle billing – just to name the most easily understood.” (Professor Elizabeth Warren, *Testimony to Senate Committee on Banking, Housing and Urban Affairs*, January 25, 2007.)

Finance Charge: The finance charge is the dollar amount you pay to use credit. This amount depends mostly on the **outstanding balance** on your credit card and the **annual percentage rate (APR)**.

The credit card issuer computes the finance charge each month by applying the APR to the outstanding balance on your account. The outstanding balance may include purchases, unpaid balances from previous months, transaction charges, and other fees. Here’s an example:

> The APR on your credit card is 12.9 percent and your outstanding balance last month was $1,203.38. The credit card issuer computes this month’s finance charge by multiplying the outstanding balance by one-twelfth of the APR ($1,202.38 x 1.0926% = $13.14). Suppose that you make the **minimum payment** of $24 ($1,203.38 x .02 = $24.)   Of that, $13.14 pays off this month’s finance charge and $10.86 goes to reducing your outstanding balance.

You may have to pay a **minimum finance charge** even though the actual finance charge is very small.

G

Grace Period: Your credit card issuer may allow you a certain number of days from the statement date to pay your bill in full without triggering a **finance charge**. This period is called the "grace period." For example, your credit card agreement might say, "You have 25 days from the statement date to pay your bill in full without incurring a finance charge, provided that you paid your previous balance in full by the due date."

When a card issuer allows a grace period, it usually applies only to new purchases, and not to cash advances and balance transfers. Interest on those transactions usually begins to accrue right away. The grace period usually does not apply if you didn't pay any part of your balance from the preceding month.

Some card issuers are shortening their grace periods (from 25 days to 20, for example), while others do not offer any grace period.

I

Interest Rates: A United States Supreme Court ruling allows national banks to charge the highest interest rate allowed in their home state to customers who live in other states, even if those states have interest rate caps. (*Marquette National Bank v. First Omaha Service Corp*. (1978) 439 US 299.) After this decision, major credit card issuers, like Citibank, began moving to states with liberal or no **usury** laws, such as South Dakota. As this trend developed, some states raised or removed interest rate caps in order to keep or attract card issuers' business. The practical effect has been that credit card interest rates have been deregulated, and that interest rates now are set by contract between card issuers and their customers.

There is a similar explanation for the high fees charged by credit card issuers. Another United States Supreme Court ruling allows national banks to "export" their home states' limits (or lack of limits) on late payment fees to other states. (*Smiley v. Citibank (South Dakota)* (1996) 517 US 735.) Thus, a bank whose home state does not limit late payment fees can charge customers in other states whatever late payment fee it sets, regardless of any limit set by the law in the customer's state.

L

Late Payment Fee: The late payment fee is the fee that the credit card issuer will impose when your payment is late. See **Fees**.

Liability: If you lose your credit card and report the loss before it is used, the card issuer cannot hold you responsible for any unauthorized charges. If a thief uses your card before you report it missing, the most you will owe for unauthorized charges is $50. Some card issuers will waive the $50 fee.

These protections do not apply to lost or stolen ATM and debit cards. For these kinds of cards, your maximum liability is:

- $0 if you report the loss before the card has been used;
- $50 if you report the loss within two business days of discovery;
- $500 if you report the loss after two business days but within 60 days after the bank mails or transmits the statement showing the unauthorized withdrawals; and
- unlimited if you fail to report the loss within 60 days after the bank mails or transmits the statement showing the unauthorized withdrawals.

The bank must show that losses over $50 would not have occurred if you had given timely notice of the card's loss or theft.

For more information on liability for lost or stolen ATM and debit cards, see the Department of Consumer Affairs' Legal Guide CR 6, *Consumer Bill of Rights in Electronic Fund Transfers (EFT)*.

Loss Protection: Many homeowner's and renter's insurance policies cover fees imposed by credit card issuers for lost or stolen credit cards. (See **Liability**.) Many credit cards offer zero liability protection for unauthorized credit card use. Loss protection insurance offered online, by telemarketers, on TV, and in magazines usually isn't worth the cost. Often, these sellers suggest that you are responsible for all unauthorized charges made against your credit card if it is lost or stolen. As explained above, this is not true.

M

Merchant Fee: A merchant fee (also called an interchange fee) is a fee charged by a credit card issuer to a merchant to process a credit card transaction. Merchant fees generated more than $30 billion in revenue for credit card issuers in 2005, according to Bankrate.com.

Minimum Finance Charge: The minimum finance charge is the minimum, or fixed, finance charge that the card issuer will impose during a billing cycle, even if your actual finance charge is less. For example, if the minimum finance charge is $1, you'll pay $1 even though your actual finance charge is only $.35. The charge usually applies only when you carry over a balance. (See also **Fees**.)

Minimum Payment: The minimum payment is the minimum amount you must pay each month to keep your credit card account from being in **default**. Credit card issuers usually require a minimum payment of two percent of the **outstanding balance,** but some set the amount as low as one percent and others as high as four percent.

If you owe $2,500 on your credit card and make just the minimum payment of two percent, it will take you 30 years and three months to pay off the balance and cost you a total of $7,733.49 (assuming 17 percent **APR**).

N

Negative Option: Under California law, a seller cannot voluntarily and without your request send you goods or services that you have not actually ordered. Any such goods or services that you receive become an unconditional gift.

Most sellers know this law, so they take a different approach. Imagine that an insert in your credit card statement offers to send you a free magazine if you agree to subscribe for a year and have the subscription charged to your credit card. The magazine sounds interesting, so you agree. This arrangement probably is not unlawful, if all the terms and conditions are clearly spelled out.

Now imagine that the year is up and you don't renew the subscription, but a charge for a second year's subscription appears on your credit card statement. You should contact the seller and credit card issuer immediately. Tell the seller to stop charging your account, and tell the card issuer not to honor new charges and to reverse the charge for the new subscription. (See **Cancellation of Recurring Charges.**)

So-called "negative option" marketing plans can include CD and DVD clubs, book clubs, health club memberships, credit monitoring services, and so on. They all involve your agreeing to receive merchandise or service automatically unless you tell the seller you don't want it. These arrangements can be hard to get out of, especially if they involve automatic charges to your credit card.

The Federal Trade Commission regulates "prenotification negative option plans," such as plans offering free CDs if you buy additional CDs at full price. Under these plans, the seller sends you periodic announcements describing merchandise you can buy, and automatically sends you the merchandise unless you return the form rejecting the merchandise within the specified time. Read "Prenotification Negative Option Plans" at www.ftc.gov/bcp/conline/pubs/products/negative.shtm. If you're having trouble getting out of a negative option plan, you can contact the California Attorney General's Office (http://ag.ca.gov/consumers/) and the FTC (www.ftc.gov).

O

Opt Out/Opt In: Suppose that you have applied for and received a new credit card. Shortly thereafter, you receive a notice called “Important Privacy Choices for Consumers” or something similar. What does this notice mean and why is it important?

In a nutshell, this notice gives you the opportunity to have some control over how financial institutions use your personal financial information. Controlling this information is important because it is among the most sensitive of all personal information. Personal financial information includes information from your application for a loan or credit card, your account balances, your payment history, your overdraft history, and where you make credit and debit card purchases. In some instances, it can even include medical information.

California and Federal laws allow you to put some limits on what banks and other financial institutions can do with your personal financial information. These laws apply to credit card issuers, and also to banks, credit unions, savings and loan associations, insurance companies. They also apply to other financial services companies, such as mortgage brokers, accountants who prepare tax returns, and real estate appraisers.

Under California law, a financial institution must get your permission **before** it can share your personal financial information with outside companies that **do not** offer financial products or services. That is, you must **opt in** to this sharing of your personal financial information. If you do not give your permission, the financial institution cannot share your personal financial information with these outside companies.

Financial institutions also share your personal financial information with outside companies that do offer financial products or services. To prevent this use of your personal financial information, you must tell the financial institution that you do not consent to it. That is, you must **opt out** of this sharing of your personal financial information. If you do not opt out, the financial institution is free to share your personal financial information with outside companies that offer financial products or services.

Financial institutions also share your personal information with companies that they own or control (called “affiliates”). You can opt out of having some of this information – your “creditworthiness” information – shared among affiliates. “Creditworthiness” information includes your payment history and credit score. Look for a heading such as “Credit Information Provided to Our Affiliates” in the privacy notices you receive.

Some consumers don’t mind that financial institutions share their personal information with affiliates and outside companies; they like to receive offers for credit and financial services. Other consumers want to exercise some control over the dissemination of their personal information. If you want to opt out, it's easy using the California "Important Privacy Choices for Consumers" form. Simply check the boxes to indicate your choices and mail the form in the pre-addressed envelope provided by the financial institution. The financial institution also may allow you to opt out by e-mail or by a toll-free phone number. It's still a good idea to mail in the form to create a record of your action.

Financial institutions will send you privacy notices each year, but you do not have to opt out each time you receive one. Financial institutions must continue to honor your opt-out decisions until you change them.

It's never too late to opt-out, even if you didn't opt out when you first received the privacy notice. You have a continuing right to opt out and you can prevent future sharing of your information.

For more information, visit the California Office of Privacy Protection's Web site at www.privacy.ca.gov or the Privacy Rights Clearinghouse's Web site at www.privacyrights.org.

See **Prescreening** to learn about opting out of preapproved credit card offers.

Outstanding Balance: As explained under **Finance Charge**, your credit card issuer applies the **annual percentage rate (APR)** to your outstanding balance to compute the finance charge for that month. Card issuers may use one of several methods to calculate the outstanding balance on your credit card. The most common method today is called the "average daily balance" method. Other methods include the "adjusted balance" and the "previous balance" methods.

Here's how the average daily balance method works. Your balance on each day of the billing cycle is added together and then divided by the number of days in the cycle. Your payment received during the billing cycle is subtracted to get the daily amounts. Depending on the plan, new purchases may or may not be included in the calculation. Some card issuers use the two-cycle average daily balance method. This means that the issuer uses the average daily balance for this month and last month to compute this month's finance charge. The finance charge usually is greater using the two-cycle method.

Over Limit Fee: The over limit fee is the fee that the credit card issuer will impose if you charge more than the **credit limit** set for your account. (See **Fees**.)

P

Prescreening: Those offers of a new preapproved credit card that you receive in the mail are the result of a practice called "prescreening."

Prescreening usually works like this: a creditor establishes criteria, such as a minimum **credit score**, and asks a **credit bureau** to create a list of people in its database who meet the criteria. The creditor then makes offers of credit to the people on the list, usually subject to a subsequent check of the credit reports of the people who respond to determine how creditworthy they are.

People who are in the market for a new credit card often like to receive prescreened offers. They make it easier to find out what's available and compare terms and features. Other people don't like to receive these offers. Some want to reduce mail box clutter. Others fear that an identity thief will steal preapproved offers and use them to obtain credit in their name. Some simply object to prescreening.

If you decide that you don't want to receive prescreened offers of credit, you can opt out, either permanently or for five years. The three major credit bureaus have established a toll free telephone number (888) OPTOUT or (888) 567-8688 and a Web site for this purpose (www.optoutprescreen.com).

Privacy: See **Opt Out/Opt In**.

R

Regulation Z: Regulation Z implements the federal **Truth in Lending Act.** The Act requires creditors to disclose fundamental information about credit transactions, among other requirements. While most people probably do not recognize the name "Regulation Z," they do recognize the format that it provides creditors to use in making disclosures required by the Act (see **Solicitations** for an example). Regulation Z can be found at 12 Code of Federal Regulations, Part 226.

Revolving Credit: A credit card is a common form of revolving credit. Revolving credit means that the lender sets a credit limit, and you can use the credit as you need it. The amount of credit available to you decreases as you use it to make purchases, take cash advances, and so on. As you make payments, however, the amount of credit available to you "revolves" back to its original amount.

Revolving credit is different than an installment loan, such as an auto loan or a mortgage. With an installment loan, you borrow a specified amount of money. You know in advance the amount of your monthly payment and the number of payments you must make to pay off the loan.

Other kinds of revolving credit include overdraft protection with a line of credit and home equity lines of credit.

Rewards Cards: Rewards cards are credit (and some debit) cards that offer their customers some kind of reward for using the card. Rewards include cash back, frequent flier miles, gift certificates, hotel and rental car discounts, and college savings. Today, more than 55 percent of all credit card offers include some kind of reward feature, and 85 percent of households have a rewards card. In a break with past practice, some 80 percent of rewards card offers today do not impose an **annual fee** (airline cards are a major exception).

As with any credit arrangement, be sure to read and understand the fine print before you make a commitment to a rewards card program.

Risk-Based Pricing Notice: Imagine that you have applied for a credit card, and when it arrives, the disclosures inform you that the interest rate is 29.9 percent. The envelope also includes a "Risk-Based Pricing Notice," or something with a similar title. The notice states that the card issuer has extended credit to you on terms "materially less favorable than the most favorable terms available to a substantial portion of our customers, based in whole or in part on your consumer credit report." What does this notice mean?

In today's credit world, many creditors use a risk-based pricing model to offer consumers credit terms that are tailored to their risk profile. For example, a consumer may receive less-favorable terms because of information in his or her **credit report**. The notice tells the consumer that there may be a problem with his or her credit report and that the customer has received less favorable terms than a substantial number of other customers.

If you receive a Risk-Based Pricing Notice, use it to obtain a free copy of your credit report. Look for the problem(s) that caused the card issuer to offer you the less-favorable terms. If you don't see a problem, ask the issuer to explain the problem and how your credit report differs from customers who received significantly better terms.

S

Secured Credit Card: A person with poor credit may be able to obtain a secured credit card by depositing money into a savings account held by the card issuer (often a bank). The card is "secured" because the bank freezes the account and uses the money in it to cover any missed payments. The interest rate on a secured credit card usually is greater than the interest paid on the savings account, and the application and processing fees can be high.

If you have damaged credit or a low credit score, a secured credit card may be a way of repairing your credit, but be sure that the card issuer reports to the credit bureaus. Also, be sure that you make your payments on time each month. Review the terms before you agree to a secured credit card because many of these cards may severely limit where you can purchase merchandise.

For more information on secured credit cards, visit Consumer Action's publication archive at www.consumer-action.org.

See also Subprime Credit Card.

Shopping for a Credit Card: Rather than just accepting a credit card offer that comes through the mail, you may benefit by shopping for a card with features that match your needs. The Federal Reserve Board has useful general information on credit cards as well as a side-by-side comparison of some 136 cards issued by banks across America. The Federal Reserve Board only updates its list every six months, so the specific terms and conditions of individual cards may change. Still, this Web site is a good first stop in your selection process: www.federalreserve.gov/pubs/shop/survey.htm.

Solicitation: The federal **Truth in Lending Act** requires that all solicitations and applications for credit cards disclose key information about rates and terms in a disclosure box similar to this one:

Annual percentage rate (APR) for purchases	2.9% until 11/1/06 after that, **14.9%**
Other APRs	Cash-advance APR: 15.9% Balance-Transfer APR: 15.9% Penalty rate: 23.9% See explanation below.*
Variable-rate information	Your APR for purchase transactions may vary. The rate is determined monthly by adding 5.9% to the Prime Rate.**
Grace period for repayment of balances for purchases	25 days on average
Method of computing the balance for purchases	Average daily balance (excluding new purchases)
Annual fees	None
Minimum finance charge	$.50
Transaction fee for cash advances: 3% of the amount advanced Balance-transfer fee: 3% of the amount transferred Late-payment fee: $25 Over-the-credit-limit fee: $25	
*** Explanation of penalty. If your payment arrives more than ten days late two times within a six-month period, the penalty rate will apply.** **** The Prime Rate used to determine your APR is the rate published in the *Wall Street Journal* on the 10th day of the prior month.**	

Before you apply for a credit card, look at the disclosures carefully and compare them to disclosures for other credit cards. For example, if you always pay your bill in full each month, you might choose a card without an annual fee and a long grace period. If you carry over a balance each month, you might choose a card with a lower APR.

Annual Percentage Rate, Grace Period, Outstanding Balance, Annual Fee, Minimum Finance Charge, Cash Advance Fee, Balance Transfer Fee, and Over Limit Fee are explained under their respective headings, above.

Subprime: There is no universally accepted definition of subprime because lenders have different standards for evaluating credit. As a general rule of thumb, however, a FICO **credit score** of less than 620 often is considered to be subprime. (Scores of 620 to 850 often are considered to be prime.)

If a lender or credit card issuer offers you a subprime rate, but you think you qualify for a prime rate, ask what its cutoff for prime rate is and why you don't qualify for a prime rate.

Subprime Card: Subprime credit cards typically are marketed to people with very poor credit. These cards usually charge very high interest rates and impose large annual and other fees. For example, a subprime credit card might offer a $350 credit limit, but may impose so many fees that only $70 to $80 of credit is available.

If you're tempted to apply for a subprime credit card, Bankrate.com and Consumer Action recommend that you consider a **secured credit card** instead. Secured credit cards are designed for people with poor credit, but offer more favorable terms.

T

Transfer fee: See **Balance Transfer Fee**.

TransUnion: See **Credit Bureau.**

Truth in Lending Act: The Truth in Lending Act (Act) standardizes financial disclosures in consumer credit transactions. The Act and **Regulation Z** require accurate and meaningful disclosure of the costs of consumer credit, thus enabling consumers to make informed choices in the credit marketplace. For example, creditors must disclose the **finance charge** and **annual percentage rate (APR)**, which aid consumers in comparison shopping and deciding whether to incur debt at all. The Act and regulation regulate the advertising of credit terms, and establish standards governing the issuance and use of credit cards, as well as the resolution of credit card disputes.   The Act can be found at 15 United States Code Sections 1601 – 1666j.

U

Universal Default: Your credit card agreement probably contains a sentence something like this: "We may change any terms, including APRs and fees, based on information in your credit report, market conditions, business strategies, or for any reason."

This is an example of a "universal default" clause. It allows the credit card issuer to raise your interest rate because you failed to pay *another* creditor on time. Your credit card issuer probably monitors its customers' credit reports periodically. If it finds that you made a late payment to any creditor – a utility, an auto finance company, a department store – it can raise your interest rate. It may double or even triple your interest rate. The card issuer may justify this by reasoning that because you're delinquent with another creditor, you're likely to become delinquent with their payment as well.

According to finance.yahoo.com, almost 40 percent of card issuers have universal default policies. Following Congressional hearings on banks' credit practices in March 2007, at least one major issuer announced that it was discontinuing the practice.

See also **Fees** and **Default**.

Usury: Usury is the term for a rate of interest on a loan of money that is in excess of the percentage allowed by law. California's Constitution limits the interest that can be charged on loans of money, but exempts most financial institutions from the limit, including State and national banks, State savings and loans associations, and State and Federal credit unions. Federal savings and loan associations, foreign banks, and personal finance companies also are exempt from the Constitution's interest limits.

See also **Interest Rates.**

Z

Zero Balance: Zero balance means that you have paid everything that you owe on your credit card and have not incurred any new charges.

Zero Percent Interest: Zero percent interest means that you do not pay any interest on charges to which the rate applies. A card issuer may offer you a credit card with zero percent interest to entice you to accept its card. The offer may encourage you to transfer a balance from another credit card or take out a cash advance. The zero percent interest feature may last for six to nine months, but then the interest rate will adjust to a normal interest rate – perhaps 15 percent or more.

Zero percent interest offers are enticing, but you need to be aware of possible downsides, including:

- You may receive a preapproved zero percent interest offer, but the interest rate on the card you receive may be higher (see **Prescreening**).
- You may be charged a normal interest rate on purchases.
- You may have to pay a balance transfer or cash advance fee.
- You may wind up paying more than the original interest rate on transferred balances if you don't pay them off by the time the interest-free period ends.
- You can expect the interest rate to jump significantly if you miss a payment or make a late payment – on the zero interest card and your other credit cards (see **Universal Default**).